

February 2014

Summary of EFRAG Technical Expert Group (TEG) and EFRAG Consultative Forum of Standard Setters (CFSS) meetings February 2014

EFRAG TEG held conference calls on 7 and 18 February 2014 to discuss:

- IASB Exposure Draft *Equity Method in Separate Financial Statements*
- Long-Term Investment Business Models

EFRAG Consultative Forum of Standard Setters (EFRAG CFSS) held its quarterly meeting from 26-27 February 2014. The following topics were discussed:

- IASB Project *Rate Regulation*
- IASB Project *Leases*
- IASB Project *Disclosure Initiative*
- IASB Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*
- EFRAG Project *Accounting for Interests in Joint Operations structured through a separate vehicle in separate financial statements*
- IASB Project *Accounting for Macro Hedging*

From 26-28 January 2014 EFRAG TEG held its monthly meeting. The following topics were discussed:

- EFRAG Project *Accounting for Interests in Joint Operations structured through a separate vehicle in separate financial statements*
- IASB Project *Accounting for Macro Hedging*
- Bulletins on the IASB's *Conceptual Framework* Project
- IASB Exposure Draft *IFRS for SMEs (Proposed amendments)*
- EFRAG/ASBJ/OIC Joint Issues Paper *Goodwill: Reintroducing the impairment and amortisation approach?*
- EFRAG/OIC/ICAC/DASB Discussion Paper *Separate Financial Statements*
- IASB Exposure Draft *Annual Improvements to IFRSs 2012-2014 Cycle*
- IASB Project *Rate Regulation*
- IASB Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*
- IFRS Interpretation Committee Issues

Highlights

Comment letters

EFRAG published its comment letter on the IASB Exposure Draft *Equity Method in Separate Financial Statements* on 11 February 2014. For more details please see page 2.

EFRAG published its comment letter on the IASB Exposure Draft *IFRS for SMEs (Proposed amendments)* on 4 March 2014. For more details please see page 4.

EFRAG TEG approved a comment letter on the IASB Exposure Draft *Annual Improvements to IFRSs 2012-2014 Cycle*. For more details please see page 5.

Feedback Statements

EFRAG published its feedback statement on the IASB Exposure Draft *Equity Method in Separate Financial Statements* on 28 February 2014. For more details please see page 2.

EFRAG TEG approved a feedback statement on the IASB Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*. For more details please see page 5.

Requests to the IASB

On 28 February 2014, EFRAG published a letter it sent to the IASB on the EFRAG Project *Accounting for Interests in Joint Operations structured through a separate vehicle in separate financial statements*. For more details, please see page 3.

IASB Exposure Draft *Equity Method in Separate Financial Statements*

On a conference call on 7 February 2014, EFRAG TEG approved its final comment letter to the IASB.

In the letter EFRAG maintained its tentative position that the equity method could provide relevant information but emphasised further that the IASB had not sufficiently clearly articulated the reasons for re-introducing the equity method in the separate financial statements. It was not clear whether the reason was to increase the relevance of separate financial statements, reduce costs of preparation or ease the adoption of IFRS in certain jurisdictions.

EFRAG also maintained its tentative view that the IASB should take this opportunity to better clarify the objective of separate financial statements, although this should be considered more comprehensively in the future as part of IASB's research activities.

At its February 2014 meeting, EFRAG TEG approved a feedback statement summarising how constituent input was considered in the finalisation of the EFRAG comment letter.

Long-Term Investment Business Models

On conference calls on 7 and 18 February 2014, EFRAG TEG considered how to supplement letters sent in October 2013 to the IASB and to the European Commission on long-term investment business models, to reflect additional outreach efforts undertaken and input received by the European Commission in its consultation on the Long Term Investment green paper.

EFRAG TEG finally decided against sending any supplementary letter. Since October 2013, the IASB has ended its deliberations on IFRS 9 classification and measurement, and it was thought any supplementary letter was now untimely and may generate confusion among constituents as to what EFRAG meant to achieve.

IASB Project *Rate Regulation*

The IASB Project *Rate Regulation* was discussed at both the February quarterly EFRAG CFSS meeting and the February EFRAG TEG meeting.

At the EFRAG CFSS meeting, members supported that the upcoming Discussion Paper would limit its scope to rate regulated activities that were subject to either no or limited competition. There was also overall support for a revenue approach; however EFRAG CFSS members cautioned against the difficulties such an approach might bring. They welcomed the IASB intention to consider the interaction of rate-regulated activities with other IFRS literature that involves a form of government assistance: for example, IFRIC 12 *Service Concession Agreements*, as they had previously recommended.

At its meeting, EFRAG TEG indicated support also for the revenue approach to be investigated in the Discussion Paper.

IASB Project *Leases*

At the EFRAG CFSS meeting, members received an educational session on the IASB's current strategy to move forward with the *Leases* project. The IASB intends to focus on simplifications on the classification of leases, and exceptions for certain categories of assets (possibly the 'small ticket items') to reduce the cost of applying the standard.

EFRAG staff presented the preliminary results of the supplementary field-testing. Participants considered that the classification and the scope of the proposals are the key areas to improve cost/benefit effectiveness. Participants considered that an exception for non-core assets could be useful, but would be difficult to define. An extension of the short-term exception beyond 12 months was therefore said to be the preferred simplification option.

EFRAG CFSS members reiterated support for one model only, i.e. the right of use model to be applied to a restricted scope. Some EFRAG CFSS members indicated that their constituents remained opponents to the project, even though they had participated in the supplementary field testing.

EFRAG CFSS also confirmed their view that the IASB should minimise changes to lessor accounting.

IASB Project *Disclosure Initiative*

At the EFRAG CFSS meeting, members received an educational session on proposed scope and outline of two projects in the second phase of the IASB's *Disclosure Initiative*. IASB staff proposes to start a project on materiality, with the aim to understand how materiality is understood and applied by different constituents. In general, EFRAG CFSS members supported an IASB initiative on materiality, but many noted that improvements are needed as quickly as feasible and a research project would likely take too long to complete.

The IASB also proposes a research project with the objective to review the general principles of disclosure in IAS 1 *Presentation of Financial Statements*, IAS 7 *Statement of Cash Flows* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. While acknowledging the interrelation between presentation and disclosure, EFRAG CFSS members expressed the view that presentation of the primary financial statements and disclosure principles should be dealt with separately, so as to benefit from past due process run by the IASB in the Financial Statement Presentation project put on hold in 2011.

Finally, EFRAG CFSS members were informed of two letters from the Australian Accounting Standards Board and the UK FRC that ask the IASB to reopen the discussion on disclosure of material uncertainties on going concern. While there was agreement that entities should provide meaningful disclosure on this aspect, EFRAG CFSS did not feel that there was a strong need to amend the requirements in IAS 1.

EFRAG Project *Accounting for Interests in Joint Operations structured through a separate vehicle in separate financial statements*

The project was discussed at both the EFRAG CFSS meeting and the EFRAG TEG meeting.

EFRAG CFSS members discussed a revised letter to the IASB regarding the accounting in the separate financial statements for interests in joint operations structured through a separate vehicle. All EFRAG CFSS members present supported the letter as drafted.

At its meeting, EFRAG TEG approved the letter to the IASB. In the letter, EFRAG requests the IASB to consider the introduction of an option in existing IAS 27 *Separate Financial Statements* for joint operations structured through a separate vehicle.

IASB Project Accounting for Macro Hedging

At their February 2014 meetings, EFRAG CFSS and EFRAG TEG received a joint educational presentation on possible macro hedge accounting models and the application of the IASB proposals to macro hedging of (coffee) commodity price risk. No decisions were taken during the session.

Bulletins on the IASB's Conceptual Framework Project

At its February 2014 meeting, EFRAG TEG discussed draft Bulletins on the statement of cash flows and the unit of account.

It was noted that the statement of cash flows did not seem to present useful information for entities in all industries. However, in order to discuss the issue further, it should be explored what information, in addition to the information provided by other financial statements, the statement of cash flows could provide.

EFRAG TEG members thought that the IASB had to decide on the unit of account when developing a specific standard. The unit of account could not be determined in the Conceptual Framework. However, the Conceptual Framework could include guidance on issues to consider when deciding on the unit of account.

IASB Exposure Draft IFRS for SMEs (Proposed amendments)

At its February 2014 meeting, EFRAG TEG approved its comment letter on the IASB's proposed amendments to the IFRS for SMEs. In its letter, EFRAG welcomes the proposed amendments to the IFRS for SMEs and appreciates the IASB's efforts to consider the issues identified during the Request for Information (RfI) process.

The letter further explains that although EFRAG supports the IASB's proposal to align the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes*, it encourages the IASB to undertake an outreach with users and preparers to consider practical solutions for SMEs that cannot apply the requirements in Section 29 without an undue cost or effort.

The letter also suggests that the *IFRS for SMEs* should not be changed based on amendments to full IFRS that have not yet been implemented. EFRAG considers that post-implementation reviews of new and revised IFRS represent the best opportunity to assess the suitability of the changes for SMEs.

Finally, EFRAG reiterates its recommendations, as specified in EFRAG's response to the IASB's Request for Information, that it would be beneficial to SMEs if the IFRS for SMEs permitted the use of the revaluation model for Property, Plant and Equipment and included an option for borrowing costs and development costs to be capitalised.

EFRAG/ASBJ/OIC Joint Issues Paper Goodwill: Reintroducing the impairment and amortisation approach?

At the February 2014 EFRAG TEG meeting, EFRAG staff outlined the current status of the joint project with OIC and ASBJ. EFRAG TEG agreed that current impairment has limitations and that reintroducing amortisation of goodwill should be explored. Some recommended expanding the analysis of accounting alternatives and also providing a better link to the information needs of users in relation to the ongoing impact of acquisitions.

EFRAG/OIC/ICAC/DASB Discussion Paper Separate Financial Statements

At its February 2014 meeting, EFRAG TEG discussed the first two chapters of a draft Discussion Paper that set out the framework of separate financial statements in Europe. These chapters provide the key conclusions from the research activities on the information needs of users. In

addition, EFRAG TEG discussed the first sections of a third chapter that focus on a number of financial reporting areas identified by those applying and using separate financial statements. More particularly, EFRAG TEG considered whether or not the accounting policies to be applied to separate and consolidated financial statements should be identical. EFRAG TEG suggested that the analysis of those financial reporting areas be more focused on the user needs and on the main features of separate financial statements that distinguish them from consolidated financial statements.

IASB Exposure Draft *Annual Improvements to IFRSs 2012-2014 Cycle*

At its February 2014 meeting, EFRAG TEG discussed constituent comments received on its draft comment letter on the IASB's Exposure Draft and approved EFRAG's final comment letter on the proposals, subject to drafting suggestions.

IASB Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*

At its meeting, EFRAG CFSS members discussed the comments to be made at the March 2014 meeting of the Accounting Standards Advisory Forum (ASAF) on strategic issues related to the Conceptual Framework.

It was agreed that robust concepts should be developed on how to distinguish equity and liabilities. Developing these concepts might have to be done as a separate project related to the Conceptual Framework, as it might include standard-level considerations to test and validate possible concepts.

On the other hand, EFRAG CFSS members emphasised that the IASB should not postpone the work on measurement. On this issue the IASB should instead provide a better rationale for the measurement guidance included in the Discussion Paper.

EFRAG CFSS members also believed that the presentation of comprehensive income should be dealt with within the current review of the Conceptual Framework. They thought that there could be merit in further developing the independence of performance reporting from the measurement in the statement of financial position, which would provide some rationale for other comprehensive income (OCI). However, some members disagreed with presenting any items in OCI. As an additional issue, EFRAG CFSS members thought that operating profit reporting should be introduced in IFRS.

Finally, EFRAG CFSS members discussed the Bulletin on Complexity issued by EFRAG and the National Standard Setters of France, Germany, Italy and United Kingdom. Some EFRAG CFSS members thought that it would be helpful for the Conceptual Framework to include additional discussions on complexity while others thought that the Conceptual Framework already includes sufficient tools for the IASB to address complexity issues.

At its February 2014 meeting, EFRAG TEG approved a feedback statement summarising how constituent input was considered in the finalisation of the EFRAG comment letter, which was issued on 3 February 2014.

IFRS Interpretation Committee Issues

At its February 2014 meeting, EFRAG TEG was asked to provide early input on four issues submitted to the IFRS Interpretations Committee and the tentative decisions taken by that Committee. No decisions were taken at the meeting. EFRAG TEG members were supportive of having regular analysis and discussion of the issues being discussed by the Interpretations Committee.